

16

OIL AND GAS LEASE

THE STATE OF TEXAS §
 §
COUNTY OF TARRANT §

THIS AGREEMENT ("Lease") is made and entered into as of the date herein specified by and between Texas KP, LP (hereinafter referred to as "Lessor"), and Vargas Energy, Ltd. (hereinafter referred to as "Lessee").

WITNESSETH:

1.

GRANTING CLAUSE

Lessor, in consideration of a cash bonus in hand paid, of the royalties herein provided, and of the agreements of Lessee hereinafter contained, hereby grants, leases, and lets exclusively unto Lessee for the sole purpose of investigating, exploring, drilling, operating, and producing oil and/or gas from the land leased hereunder, together with any liquid or gaseous substances produced in association with oil and gas, the following described land situated in the city of Fort Worth, Texas and described in Exhibit "A" attached hereto (the "leased premises").

All mineral substances and mineral rights other than oil and gas (and all other liquid or gaseous minerals produced in association with oil or gas) are expressly reserved to Lessor and excepted from this Lease. These reserved mineral rights include, but are not limited to, the rights to lignite, coal and sulfur not produced as a component of oil and gas.

For the purpose of determining the amount of any bonus or other payment hereunder, said leased premises shall be deemed to contain 3.844215 acres, whether actually containing more or less.

2.

PRIMARY TERM

Subject to the other provisions herein contained, this Lease shall be for a term of three (3) years from the date of the notarial acknowledgment of Lessor's execution of this instrument (hereinafter called "primary term") and so long thereafter as oil, gas or other minerals granted herein are produced from the leased premises or lands pooled therewith, in paying quantities, or drilling operations are in progress thereon as hereinafter provided, and the royalties are paid as provided herein. For the purposes of this lease, the term "operations" means any of the following: drilling, testing, completing, including perforating and fracing, reworking, recompleting, deepening, plugging back, sidetracking, or repairing of a well in search for or in the endeavor to obtain production of oil or gas, so long as such operations are carried out with due diligence with no cessation of more than ninety (90) consecutive days.

3.

DELAY RENTALS

This is a paid-up lease and no delay rentals are due. Upon termination, Lessee shall prepare, execute and deliver to Lessor a recordable release covering the leased premises in accordance with this Lease. Lessee may at any time or times execute and deliver to Lessor, a release or releases of this Lease as to all or any part of the leased premises, and thereby be relieved of all obligations as to the released land or interest, except for the indemnification obligations described in Section 16 and the plugging obligations of this Lease.

4.

ROYALTIES

A. On oil, gas(including flared gas) and casinghead gas, together with any other liquid or gaseous hydrocarbons recovered by Lease operations (such as in drips or separators) twenty five percent (25%) of the proceeds of the sale or of the market value thereof, whichever is higher. Such proceeds of oil and gas and casinghead gas, together with any other liquid or gaseous hydrocarbons recovered by Lease operations, is to be delivered free of cost at the well or to the credit of the Lessor into pipelines, gathering lines, barges or other facilities to which the wells and tanks on the property may be connected. Lessor shall always have the right at its sole risk and expense, at any time and from time to time, upon reasonable written notice to Lessee, to take Lessor's share of oil, gas and processed liquids in kind. Lessor may elect to take Lessor's gas in kind at the well, or at the point of delivery where Lessee delivers Lessee's gas to any third party. If gas is processed, Lessor may elect to take Lessor's share of the residue gas attributable to production from the leased premises, at the same point of delivery where Lessee receives its share of residue gas or has its share of residue gas delivered to a third party. Lessor may elect to have its royalty share of processed liquids stored in tanks at the plant or delivered into pipelines on the same basis as Lessee's share of liquids is stored or delivered. Lessor shall reimburse Lessee for all reasonable costs incurred by Lessee in installing, operating or maintaining additional facilities necessary for Lessor's royalty gas and processed liquids to be separately metered, accounted for, and delivered to a third party, but Lessor shall not be charged for any expense in the production, gathering, dehydration, separation, compression, transportation, treatment, processing or storage of Lessor's share of gas and processed liquids unless such charges are incurred by Lessee under Lessee's gas purchase contract with a nonaffiliated third party.

B. On products, twenty five percent (25%) of the gross market value or proceeds of sale thereof whichever is higher.

C. On residue gas or gas remaining after separation, extraction or processing operations, twenty five percent (25%) of the proceeds of sale or of the market value thereof, whichever is higher.

D. For purposes of this Paragraph 4, the term "market value" shall mean for gas and products

therefrom (i) the gross price at which gas or products therefrom are sold pursuant to a Gas Contract, as defined below, or (ii) if not sold pursuant to a Gas Contract, as defined below, ratified by Lessor and Lessee, the highest gross price reasonably obtainable for the quantity of gas or products available for sale, through good faith negotiations for gas or products produced from the leased premises at the place where such gas or product is available for sale on the date of such a contract with adequate provisions for redetermination of price at intervals of no less frequency than one (1) year to ensure that the production is being sold for no less than the current market price. Included within the definition of "Market Value" as used herein is the presumption that Gas Contracts that are ratified by Lessor are arms-length contracts with purchasers who are not affiliates of Lessee. An "affiliate" includes, but is not limited to, the parent company or a subsidiary of Lessee, a corporation or other entity having common ownership with Lessee, a partner or joint venturer of Lessee with respect to the ownership or operation of the processing plant, a corporation or other entity in which Lessee owns a ten percent or greater interest, or any individual, corporation or other entity that owns a ten percent or greater interest in Lessee. In no event shall "market value" ever be less than the amount actually received by the Lessee for the sale of hydrocarbons.

E. This Lease is intended to cover only oil and gas, but some other substances (including helium and sulphur) may be produced necessarily with and incidental to the production of oil or gas from the leased premises; and, in such event, this Lease shall also cover all such other substances so produced. On all such substances so produced under and by virtue of the terms of this Lease, Lessor shall receive a royalty of twenty five percent (25%) of all such substances so produced and saved, same to be delivered to Lessor, free of all costs; or, at Lessor's election, Lessor's twenty five percent (25%) of such substances shall be sold by Lessee with Lessee's portion of such substances and at the same profit realized by Lessee for its portion of such substances.

F. All royalties hereinabove provided shall be payable in cash (unless Lessor elects to take such royalty oil or gas in kind) to Lessor within one hundred and twenty (120) days following the end of the month of the first commercial sale of production and thereafter no more than sixty (60) days after the end of the month following the month during which production takes place. Unless otherwise herein expressly provided, any royalties or other payments provided for in this lease which are suspended or not paid to Lessor within the time period specified therefore shall accrue interest at the rate of twelve percent (12%) per annum, from the due date until paid.

G. Lessee agrees that it will not enter into any contract for the sale, delivery, transporting or processing of gas produced from the leased premises which shall extend more than two (2) years from the effective date of such sales contract unless such contract has adequate provisions for redetermination of price at intervals of no less frequency than one (1) year to ensure that production from this Lease is not being sold for less than the then current market value. In the event Lessor elects to take and separately

dispose of its royalty share of gas, the parties shall enter into a mutually acceptable balancing agreement providing for (a) the right of an under produced party to make up an imbalance by taking up to 150 percent of its share of production and (b) and obligation to settle any imbalance remaining after depletion in cash, based on the proceeds received by the overproduced party when the imbalance was created, or if the overproduced party's gas was used but not sold, based on the market value of the gas when imbalance was created.

H. In the event Lessee enters into a gas purchase contract, which contains what is commonly referred to as a "take or pay provision" (such provision meaning that the gas purchaser agrees to take delivery of a specified minimum volume or quantity of gas over a specified term at a specified price or to make minimum periodic payments to the producer for gas not taken by the purchaser) and the purchaser under such gas purchase contract makes payment to Lessee by virtue of such purchaser's failure to take delivery of such minimum volume or quantity of gas, then Lessor shall be entitled to twenty five percent (25%) of all such sums paid to Lessee or producer under the "pay" provisions of such gas purchase contract. Such royalty payments shall be due and owing to Lessor within thirty (30) days after the receipt of such payments by Lessee. If the gas purchaser "makes up" such gas within the period called for in the gas contract and Lessee is required to give such purchaser a credit for gas previously paid for but not taken, then Lessor shall not be entitled to royalty on such "make up" gas. If Lessee is not producing any quantities of gas from the leased premises but is receiving payments under the "pay" portion of such "take or pay" gas purchase contract provision, such payments shall not relieve Lessee of the duty to make shut-in royalty payments if Lessee desires to continue this Lease, but such "take or pay" royalty payments shall be applied as a credit against any shut-in royalty obligation of the Lessee. Lessor shall be a third-party beneficiary of any gas purchase contract and/or transportation agreement entered into between Lessee and any purchaser and/or transporter of Lessor's gas, irrespective of any provision of said contracts to the contrary, and such gas purchase contract and/or transportation agreement will expressly so provide. Further, Lessor shall be entitled to twenty-five percent (25%) of the value of any benefits obtained by or granted to Lessee from any gas purchaser and/or transporter for the amendment, modification, extension, alteration, consolidation, transfer, cancellation or settlement of any gas purchase contract and/or transportation agreement.

I. Lessee agrees that before any gas produced from the leased premises is used or sold off the leased premises, it will be run, free of cost to Lessor, through an adequate oil and gas separator of a conventional type or equipment at least as efficient, to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered and Lessor properly compensated therefore.

J. Any payment of royalty or shut-in gas royalty hereunder paid to Lessor in excess of the amount actually due to the Lessor shall nevertheless become the property of the Lessor if Lessee does not make written request to Lessor for reimbursement within one (1) year from the date that Lessor received the

erroneous payment, it being agreed and expressly understood between the parties hereto that Lessor is not the collecting agent for any other royalty owner under the lands covered hereby, and a determination of the name, interest ownership and whereabouts of any person entitled to any payment whatsoever under the terms hereof shall be the sole responsibility of Lessee. It is further expressly agreed and understood that: (i) this provision shall in no way diminish the obligation of Lessee to make full and punctual payments of all amounts due to Lessor or to any other person under the terms and provisions of this Lease shall not be entitled to be offset against future amounts payable to parties hereunder.

K. The terms of this Lease may not be amended by any division order and the signing of a division order by any mineral owner may not be made a prerequisite to payment of royalty hereunder.

L. Oil, gas or products may not be sold to a subsidiary or affiliate of Lessee as defined herein without the Lessor's prior written permission which permission will not be unreasonably withheld.

M. Lessee shall pay Lessor royalty on all gas produced from a well on the leased premises and sold or used off the leased premises, regardless of whether or not such gas is produced to the credit of Lessee or sold under a contract executed by or binding on Lessee. Should gas be sold under a sales contract not binding on Lessee, Lessor's royalty will be calculated based on the highest price paid for any of the gas produced from the well from which such gas is produced. In no event will the price paid Lessor for Lessor's share of gas be less or more than the price paid Lessee for Lessee's share of gas.

5.

POOLING

Lessee, , is hereby given the right to pool or combine the acreage covered by this Lease or any portion thereof as to oil and gas, or either of them with any other land, lease or leases in the immediate vicinity thereof to the extent hereinafter stipulated, when it is necessary or advisable to do so in order to properly explore, or develop, produce and operate said leased premises in compliance with the spacing rules of the appropriate lawful authority, or when to do so would promote the conservation of oil and gas in and under and that may be produced from said premises. Pooled Units hereunder shall not exceed 40 acres for an oil well and 320 acres for a gas well. Lessee, under the provisions hereof, may pool or combine acreage covered by this Lease or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the Lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this Lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing the pooled acreage as a pooled unit. In this regard, Lessee

shall provide Lessor with a copy of any and all documents filed with any regulatory authority or recorded in the records of any county within thirty (30) days of filing such documents. Upon the recordation of the unit in the county records and the timely furnishing of the copies required herein to Lessor the unit shall be effective as to all parties hereto, their heirs, successors, and assigns irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty or other rights in land included in such unit. Lessee may at its election exercise its pooling option before or after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. In the event of operations for drilling on or production of oil or gas from any part of a pooled unit which includes all or a portion of the land covered by this Lease, such operations shall be considered as operations for drilling on or production of oil and gas from land covered by this Lease whether or not the well or wells be located on the premises covered by this Lease and in such event operations for drilling shall be deemed to have been commenced on said land within the meaning of this Lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them shall be entitled on production of oil and gas, or either of them, there shall be allocated to the land covered by this Lease and included in said unit (or to each separate tract within the unit if this Lease covers separate tracts within the unit) a pro rata portion of the oil and gas, or either of them, produced from the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be on oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered as production from this Lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from this Lease or gas pooled unit from which it is producing and not from an oil pooled unit. The formation of any unit hereunder shall not have the effect of changing the ownership of any delay rental or shut-in production royalty which may become payable under this Lease. If this Lease now or hereafter covers separate tracts, no pooling or unitization of royalty interest as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this Lease but Lessee shall nevertheless have the right to pool as provided above with consequent allocation of production as provided above. As used in this paragraph, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises. If Lessee includes this Lease in a pooled unit, all of the land then covered by the Lease shall be included in the unit.

6.

CONTINUOUS DRILLING

At the expiration of the primary term this Lease shall remain in full force and effect for so long as Lease is conducting Continuous Drilling Operations (as herein defined). Lessee shall be considered to be

engaged in Continuous Drilling Operations at the expiration of the primary term if: (1) Lessee is then engaged in drilling operations on the leased premises or lands pooled therewith or (2) Lessee has completed a well as a producer or as a dry hole within one hundred twenty (120) days prior to the expiration of the primary term. Lessee also shall be considered to be engaged in Continuous Drilling Operations for so long thereafter as Lessee conducts drilling operations on the leased premises, or lands pooled therewith, with due diligence and with intervals of no more than one hundred twenty (120) days between the completion of one well and the date of commencement of drilling operations on an additional well. "Completion" shall be considered to be the date of release of the completion rig for a completed well, but in no event more than ninety days following the release of the drilling rig. In the case of a dry hole "completion" shall be considered to be the date of release of the drilling rig. "Commencement" shall be the actual spud date of a well. Continuous Drilling Operations shall be deemed to have ceased upon the failure of Lessee to commence drilling operations on an additional well within such one hundred twenty (120) day period. When the Continuous Drilling Operations cease, the provisions of Paragraph 7 will be applicable.

7.

RETAINED ACREAGE

It is understood and agreed that Lessee shall earn depths only from the surface down to a depth which is the stratigraphic equivalent of one hundred feet (100') below the deepest producing formation in such well which is capable of producing oil or gas in paying quantities at the expiration of the primary term of this Lease or upon the termination of the continuous drilling program set forth in Paragraph 6. This Lease will terminate at such time as to all depths below such depths. If production should thereafter cease as to acreage included in a proration unit or pooled unit, this Lease will terminate as to such acreage unless Lessee commences reworking or additional drilling operations on such acreage within ninety (90) days thereafter and continues such reworking or additional drilling operations until commercial production is restored thereon, provided that if more than ninety (90) days elapse between the abandonment of such well as a dry hole and the commencement of actual drilling operations for an additional well, or more than ninety (90) days pass since the commencement of reworking operations without the restoration of commercial production, this Lease shall terminate as to the applicable proration unit or pooled unit.

At any time or times that this Lease terminates as to all or any portion of the acreage of the leased premises, Lessee shall promptly execute and record in the office of the County Clerk in the County where the leased premises are located, a proper release of such terminated acreage and shall furnish executed counterparts of each such release to Lessor at the address shown in Paragraph 19 hereof.

8.

OFFSET OBLIGATIONS

In the event a well or wells producing oil or gas should be brought in on land within 330 feet from any boundary of the leased premises, Lessee agrees within one hundred and eighty (180) days from

commencement of production from such well or wells to commence the actual drilling of an offset well or wells on the leased premises; provided that the well or wells which are to be offset are producing in paying quantities and have been perforated and fraced within 330 feet of the leased premises; or Lessee shall release to Lessor the Leased Premises.

9.

FORCE MAJEURE

A. The term "force majeure" as used herein shall mean and include: requisition, order, regulation, or control by governmental authority or commission; exercise of rights or priority or control by governmental authority for national defense or war purpose resulting in delay in obtaining or inability to obtain either material, equipment or means of transportation normally necessary in prospecting or drilling for oil, gas or other mineral granted herein, or in producing, handling or transporting same from the leased premises; war, scarcity of or delay in obtaining materials or equipment; lack of labor or means of transportation of labor or materials; acts of God; insurrection; flood; strike; or other things beyond the control of Lessee. The term "force majeure" shall not include lack of markets for production or any other events affecting only the economic or financial aspects of drilling, development or production.

B. Notwithstanding any other provisions of this Lease, but subject to the conditions hereinafter set forth in this Paragraph 9, should Lessee be prevented by "force majeure" as defined above, from conducting drilling or reworking operations on, or producing oil, gas or other mineral from, the leased premises, such failure shall not constitute a ground for the termination of this Lease or subject said Lessee to damages therefore; and the period of time during which Lessee is so prevented shall not be counted against Lessee, but this Lease shall be extended for a period of time equal to that during which such Lessee is so prevented from conducting such drilling or reworking operations on, or producing oil, gas or other mineral from, such leased premises. All of the provisions of this paragraph are subject to each of the following express conditions:

The terms and conditions of this paragraph shall not extend beyond the expiration date of any law, order, rule or regulation invoked under this paragraph and shall be applicable and effective only during the following periods:

- (1) If the force majeure shall occur during the primary term of this Lease, it shall not operate to extend this Lease more than two (2) consecutive years beyond the expiration of the primary term.
- (2) If the force majeure shall occur during a one hundred twenty (120) day drilling or reworking period provided for in Paragraphs 6 and 7 hereof, after the primary term has expired, then it shall not operate to extend the Lease more than two (2) successive years beyond the expiration of such one hundred twenty (120) day periods.

C. None of the provisions of this paragraph shall ever be or become effective and applicable unless Lessee shall, within a reasonable time (not to exceed sixty (60) days in any event) after occurrence of the claimed event of force majeure above referred to, notify the Lessor, in writing, of such occurrence with full particulars thereof

D. The terms of this paragraph do not apply to monetary payments due under the terms of this Lease.

10.

SHUT-IN GAS WELL PROVISIONS

If at any time while there is a gas well on the leased premises land pooled therewith which is capable of producing gas in paying quantities, but the production thereof is shut-in or suspended for any reason, and if this Lease is not then continued in force by some other provision hereof, then this Lease shall nevertheless continue in force as to such well and the pooled unit or proration unit allocated to it for a period of sixty (60) days from the date such well is shut-in. Before the expiration of any such sixty (60) day period, Lessee or any Assignee hereunder may pay tender to the Lessor a shut-in royalty equal to Five hundred Dollars (\$500) per shut-in gas well and if such payment or tender is timely made, this Lease shall continue in force but only as to said well or wells and the proration unit or the pooled unit allocated to it or them and it shall be considered that gas is being produced from said well or wells in paying quantities for one (1) year from the date such well or wells are shut-in, and in like manner two, and only two subsequent shut-in royalty payments may be made or tendered and it will be considered that gas is being produced from said well or wells in paying quantities for such additional two (2) year period as well. Lessee shall not be entitled to recover any shut-in royalty payments from the future sale of gas. Should such shut-in royalty payments not be made in a timely manner as provided in this section, it will be considered for all purposes that there is no production and no excuse for delayed production of gas from any such well or wells, and unless there is then in effect other preservation provisions of this Lease this Lease shall terminate. Lessee shall pay or tender directly to the Lessor at the address as shown in Paragraph 19 all shut-in royalty payments as required by this Lease.

11.

INFORMATION. ACCESS AND REPORTS

A. **At Lessor's sole risk and expense**, Lessor shall have free access to all wells, tanks, and other equipment that services wells under the leased premises, and Lessee agrees to furnish Lessor, or Lessor's nominee, currently and promptly upon written request, with full well information including copies of electrical logs and results of deviation tests and drill stem tests. On an annual basis and upon five (5) business days notice to Lessee, Lessor or Lessor's nominee shall have the right at Lessee's offices to

examine and make copies of Lessee's books and records relative to the production and sale of oil, gas or other minerals from the leased premises, including reports of every kind and character to governmental authorities, State or Federal. Lessee shall furnish to Lessor daily drilling reports on each well drilled.

B. Lessee shall advise Lessor in writing of the location of all wells drilled upon the leased premises upon written request, and shall advise Lessor in writing the date of completion and/or abandonment of each well drilled within ninety (90) days after completion or abandonment.

12.

ASSIGNABILITY BY LESSEE

This Lease may be assigned in whole or in part by Lessee and the provisions shall extend to the heirs, executors, administrators, successors and assigns of the parties hereto. All transfers by Lessee (including assignments, sales, subleases, overriding royalty conveyances, or production payment arrangements) must be recorded in the county where the lease premises are located, and the recorded transfer or a copy certified by the County Clerk of the county where the transfer is recorded must be delivered to the Lessor within sixty (60) days of the execution date. Every transferee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the Lessor by the original Lessee or any prior transferee of the Lease, including any liabilities to the Lessor for unpaid royalties. No such transfer shall release the Lessee (or any subsequent transferor) from any obligation hereunder.

13.

NO WARRANTY

This lease is given and granted without warranty of title, express or implied, in law or in equity. Lessor agrees that Lessee, at Lessee's option, may purchase or discharge, in whole or in part, any tax or other lien upon the leased premises and thereupon be subrogated to the right of the holder thereof, and may apply royalties accruing hereunder toward satisfying same or reimbursing Lessee. It is also agreed that if Lessor owns an interest in the oil and gas under the leased premises less than the entire fee simple estate therein, the royalties to be paid Lessor shall be reduced proportionately, but in no event shall the shut-in royalty amount for a gas well, as provided for in Paragraph 10 hereof, be reduced.

14.

INDEMNITY

Lessee shall expressly release and discharge, all claims, demands, actions, judgments, and executions which it ever had, or now has or may have, or assigns may have, or claim to have, against the Lessor or its departments, agents, officers servants, successors, assigns, sponsors, volunteers, or employees, created by, or arising out of personal injuries, known or unknown, and injuries to property, real or personal, or in any way incidental to or in connection with the performance of the work performed by the Lessee. **The Lessee shall fully defend, protect, indemnify, and hold harmless the Lessor, its departments,**

agents, officers, servants, employees, successors, assigns, sponsors, or volunteers from and against each and every claim, demand, or cause of action and any and all liability, damages, obligations, judgments, losses, fines, penalties, costs, fees, and expenses incurred in defense of the Lessor, its departments, agents, officers, servants, or employees, including, without limitation, the payment of bonus and/or royalties regarding ownership of the Lessor's mineral interest of the leased premises which may be made or asserted by Lessee, its agents, assigns, or any third parties on account of, arising out of, or in any way incidental to or in connection with the ownership and title of the mineral interest of the Lessor under this Lease.

The Lessee shall fully defend, protect, indemnify, and hold harmless the Lessor, its departments, agents, officers, servants, employees, successors, assigns, sponsors, or volunteers from and against each and every claim, demand, or cause of action and any and all liability, damages, obligations, judgments, losses, fines, penalties, costs, fees, and expenses incurred in defense of the Lessor, its departments, agents, officers, servants, or employees, including, without limitation, personal injuries and death in connection therewith which may be made or asserted by Lessee, its agents, assigns, or any third parties on account of, arising out of, or in any way incidental to or in connection with the performance of the work performed by the Lessee under this Lease.

THE LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS THE LESSOR, ITS OFFICERS, AGENTS, SERVANTS, EMPLOYEES, SUCCESSORS, ASSIGNS, SPONSORS, OR VOLUNTEERS FROM ANY LIABILITIES OR DAMAGES SUFFERED AS A RESULT OF CLAIMS, DEMANDS, COSTS, OR JUDGMENTS AGAINST THE LESSOR, ITS DEPARTMENTS, ITS OFFICERS, AGENTS, SERVANTS, OR EMPLOYEES, CREATED BY, OR ARISING OUT OF THE ACTS OR OMISSIONS OF THE LESSOR OCCURRING ON THE DRILL SITE OR OPERATION SITE IN THE COURSE AND SCOPE OF INSPECTING AND PERMITTING THE GAS WELLS INCLUDING, BUT NOT LIMITED TO, CLAIMS AND DAMAGES ARISING IN WHOLE OR IN PART FROM THE NEGLIGENCE OF THE LESSOR OR OCCURRING ON THE DRILL SITE OR OPERATION SITE IN THE COURSE AND SCOPE OF INSPECTING AND PERMITTING THE GAS WELLS. IT IS UNDERSTOOD AND AGREED THAT THE INDEMNITY PROVIDED FOR IN THIS SECTION IS AN INDEMNITY EXTENDED BY THE LESSEE TO INDEMNIFY AND PROTECT LESSOR AND/OR ITS DEPARTMENTS, AGENTS, OFFICERS, SERVANTS, OR EMPLOYEES FROM THE CONSEQUENCES OF THE NEGLIGENCE OF THE LESSOR AND/OR ITS DEPARTMENTS, AGENTS, OFFICERS, SERVANTS, OR EMPLOYEES, WHETHER THAT NEGLIGENCE IS THE SOLE OR CONTRIBUTING CAUSE OF THE RESULTANT INJURY, DEATH, AND/OR DAMAGE.

15.

INSURANCE

Lessee shall provide or cause to be provided the insurance described in the City of Ft. Worth Gas

Ordinance for each well drilled under the terms of this Lease, such insurance to continue until the well is abandoned and the site restored.

16.

RELEASES REQUIRED

Within thirty (30) days after the partial termination of this Lease as provided under any of the terms and provisions of this Lease, Lessee shall to Lessor a plat showing the production units designated by Lessee, and a fully executed, recordable release properly describing by metes and bounds the lands and depths to be retained by Lessee around each producing well. If this Lease terminates in its entirety, then Lessee shall deliver a complete, fully executed, recordable release to Lessor within thirty (30) days. If such release complies with the requirements of this section, Lessor shall record such release.

17.

NOTICES

A. Notifications Required

Reports are also to be made monthly, to include (1) name of well, total monthly production and total product sales

B. All notices, information, letters, surveys, reports, material, and all other documents, required or permitted to be sent to Lessor by Lessee shall be sent by certified United States mail, postage prepaid, return receipt required, to the following address:

Hank Akin
Klabzuba Realty, LLC
930 West 1st Street
Fort Worth, TX 76102

C. All notices required or permitted be sent to Lessee by Lessor shall be sent to Lessee by certified United States mail, postage prepaid, return receipt requested to the following address:

Vargas Energy, Ltd.
4200 S. Hulen, Suite 614
Fort Worth, TX 76109
Attn: Crawford Edwards

D. Service of notices, and other documents hereunder is complete upon deposit of the mailed Material in a post office or official depository under the care and custody of the United States Postal Service, in a postpaid, properly addressed and certified wrapper.

E. Any party hereto shall have the right to change the name or address of the person or persons required to receive notices and other documents, by so notifying the other party in writing.

18.

LOCATION OF DRILLING ACTIVITY, PIPELINES AND EQUIPMENT

No drilling or other activity shall be conducted on the surface of the leased premises and no roads, electric lines, pipelines, equipment, or other structures shall be placed on the surface of the leased premises.

19.

COMPLIANCE WITH LAWS

Lessee shall comply with all applicable rules, regulations, ordinances, statutes and other laws in connection with any drilling, producing or other operations under the terms of this Lease, including, without limitation, all federal, state and local oil and gas well regulations.

20.

TERMS

All of the terms and provisions of this Lease shall extend to and be binding upon the heirs, executors, administrators, successors and authorized assigns of the parties hereto.

21.

ENTIRE AGREEMENT

This Lease states the entire contract between the parties, and no representation or promise, verbal or written, on behalf of either party shall be binding unless contained herein; and this Lease shall be binding upon each party executing the same, regardless of whether or not executed by all owners of the above described land or by all persons above named as "Lessor", and, notwithstanding the inclusion above of other names as "Lessor", this term as used in this Lease shall mean and refer only to such parties as execute this Lease and their successors in interest.

22.

CAPTIONS

The captions to the various paragraphs of the Lease are for convenience only, to be used primarily to more readily locate specific provisions. They shall not be considered a part of the Lease, nor shall they be used to interpret any of the lease provisions.

23.

COUNTERPARTS

This Lease may be executed in multiple counterparts each of which shall be deemed an original, with the same effect as if the signature thereto and hereto were upon the same instrument.

EXECUTED and effective as of the date of the notarial acknowledgment of the Lessor's execution.

LESSOR

TEXAS KP, LP- LESSOR

By: Klabzuba Oil & Gas, Inc., a Texas
Corporation, Its General Partner

By: Robert E. Klabzuba
Name: Robert E. Klabzuba
Title: Chairman

ATTEST:

By: Hank Allen
Name: Hank Allen
Title: V.P.

APPROVED AS TO FORM &
LEGALITY:

By: FILED AS RECEIVED
Name: _____
Title: _____
Date: _____

LESSEE:

VARGAS ENERGY, LTD.

By Plover Production Company, LLC, its
sole General Partner

By: Crawford Edwards
Crawford Edwards, President

ACKNOWLEDGEMENTS

THE STATE OF TEXAS §
COUNTY OF Texas §

BEFORE ME, Christina J. Johnston the undersigned notary public, on this day personally appeared Robert F. Klabzuba known to me to be the person whose name is subscribed to the foregoing instrument and, that (s)he has executed the same for the purposes and consideration therein expressed.

GIVEN under my hand and seal of office this 14th day of April, 2008.

Christina J. Johnston
Notary Public, State of Texas

My Commission Expires: July 14, 2009
Commission Number: _____



STATE OF TEXAS

COUNTY OF TARRANT

This instrument was acknowledged before me on the 22 day of April, 2008 by Crawford Edwards, President of Plover Production Company, sole General Partner of Vargas Energy, Ltd., a Texas limited partnership, on behalf of the partnership.

A S Marshall
Notary Public, State of Texas

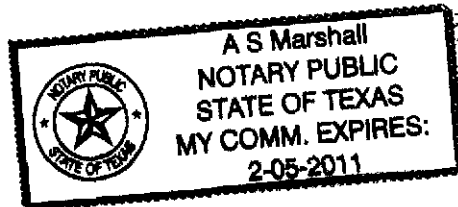


EXHIBIT A

Tract 1: .689573 acres, more or less, being Lot 1R1, Block 4, Stonegate Addition, an Addition to the City of Fort Worth, Tarrant County, Texas, according to the Plat recorded in Cabinet A, Slide 7828, Plat Records, Tarrant County, Texas.

Tract 2: 1.619 acres, more or less, being Lot 2R1, Block 4, Stonegate Addition to the City of Fort Worth, Tarrant County, Texas, according to Plat and Dedication recorded in Cabinet A, Slide 7828, Plat Records, Tarrant County, Texas.

Tract 3: 1.535192 acres, more or less, being Lot 3R, Block 4, Stonegate Addition an addition to the City of Fort Worth, Tarrant County, Texas, according to Plat and Dedication as recorded in Cabinet A, Slide 5562, Plat Records, Tarrant County, Texas.

RETURN TO:
HOLLAND ACQUISITIONS
309 West 7th Street
Suite 300
Fort Worth, Texas 76102



HOLLAND ACQUISITIONS INC
309 WEST 7TH STREET
#300

FT WORTH TX 76102

Submitter: HOLLAND ACQUISITIONS INC

SUZANNE HENDERSON
TARRANT COUNTY CLERK
TARRANT COUNTY COURTHOUSE
100 WEST WEATHERFORD
FORT WORTH, TX 76196-0401

DO NOT DESTROY
WARNING - THIS IS PART OF THE OFFICIAL RECORD.

Filed For Registration: 05/09/2008 03:46 PM
Instrument #: D208173321
LSE 17 PGS \$76.00

By: _____



D208173321

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

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